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Office of Near Eastern and South Asian Analysis
Directorate of Intelligence

D/NESA 85-013
11 January 1985

NOTE FOR: DCI

SUBJECT The Energy Forum--on the Persian Gulf and the World Oil Market

1. Action: None, for your information.

2. You might find the attached memorandum of interest. It presents the views of two outside experts on the Persian Gulf and oil in the future. Perhaps most noteworthy are the sharp differences of view and the fact that these views are being presented to representatives from the private oil sector.

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Director
DDI/NESA

cc: DDCI
DDI

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9 January 1984

MEMORANDUM FOR THE RECORD

25X1 FROM: [redacted]
NESA/PG/R

SUBJECT: The Energy Forum--on the Persian Gulf and the World Oil Market

1. The Energy Forum is a City University of New York program chaired by well-known oil market author Professor Dan Rustow. It offers monthly seminars which are open to all interested parties. I recently attended the seminar addressing the effects of developments in the Persian Gulf on the world oil market. The audience was dominated by private financial and oil sector representatives, with the largest contingent coming from Exxon.

2. The first speaker, Professor Shuler (Director, Energy Security Program at Georgetown University), warned that over a fairly short run period--the next one to five years--OPEC's price hawks could emerge victorious and induce significant oil price increases. This move would be led by Iran or Libya. In the Persian Gulf it would represent revolutionary Iran's victory over "moderate" Saudi Arabia in the oil sector. In laying out his scenario, Shuler does not deny, however, that the price of oil could fall in the short term as a necessary adjustment to current market conditions. (C NF)

3. Shuler emphasizes political arguments for higher prices, seeing a hawkish oil policy as a form of belligerent Muslim assertiveness. It is part of the Islamic fundamentalists' quest for identity--their own, non-Western identity--prevailing over the Western technology-driven oil industry. The conspiracy theory runs rampant: oil price cuts are concessions to the imperialist powers who actively conspire for cheap oil. (C NF)

4. The economic arguments for higher oil prices in a year or so make sense, according to Shuler, who also believes that they would be more credible to our press if their sponsor was not revolutionary Iran. He notes that the oil price cut in March 1983 from $34 to $29 per barrel did not raise demand for OPEC oil. (C NF)

5. Shuler presents Saudi Arabia with some rather awesome challenges: "Survival of responsible pricing depends on survival of the House of Saud--and this will depend not on Yamani and his technocrats but on the

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princes. Boldness on the part of Saudi Arabia is needed to restore discipline to OPEC." The Saudis, however, are more likely to drift as events are not going smoothly for them, Shuler emphasizes:

-- They feel betrayed by the European tariffs on Saudi petrochemical exports.

-- The Saudis expected some US cooperation on political matters in return for moderation. Instead, they are distressed that we said "not low enough" on oil prices and have not budged on our Palestinian position.

-- The domestic budget cuts induced by lower oil revenues are beginning to hurt and no quick turnaround is evident: no one in Saudi Arabia expected low demand for Saudi oil to last so long. (C NF)

6. Melvin A. Conant, who heads Conant and Associates in Washington, takes a longer view-- five to ten years out--and reaches a different conclusion. He sees the marginal barrel of oil still concentrated in the Persian Gulf, and therefore OPEC's oil power will be restored in the long run. He sees three hostile Gulf countries--Iran, Iraq, and Saudi Arabia--as having an extra 15 million barrels per day of capacity to dump on the market. These three countries will disagree with each other on everything except maximizing oil revenues. He seems convinced that the Saudis will need to reach some sort of accomodation with Iran, regardless of the outcome of the Iran-Iraq war:

<u>If Iran wins</u> -- it will become the kingpin of the whole area and Saudi Arabia could not afford to be its enemy.

<u>If Iraq wins</u> -- it will revert back to being an aggressive revolutionary, but with the added clout of 7 million barrels per day capacity by 1990; Saudi Arabia would need an alliance with Iran to balance off Iraqi power.

<u>If no one wins</u> -- and a war of attrition drags on, then the Saudis will need to persuade a frustrated Iran that their aid for Iraq and/or Iraqi oil flowing through Saudi territory should not make Saudi Arabia a target.

<u>If no one wins</u> -- and a cease-fire is declared, then Iran and Saudi Arabia will need to coordinate to prevent Iraq from unilaterally dumping 3 million more barrels per day of oil onto the market. (C NF)

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